



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Contract Farming And Its Socio-Economic Impact On Small Farmers: A Case Study Of Baghpat District

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➤ Abstract

Contract farming has emerged as a significant model of agricultural commercialization in India, offering small farmers an opportunity to link directly with agribusiness firms and organized markets. This study explores the extent, patterns, and socio-economic impact of contract farming on smallholders in Baghpat district, Uttar Pradesh. It investigates how contractual arrangements influence farmers' income, cropping choices, standard of living, and access to inputs and markets. Additionally, the study examines the types of companies involved, the nature of contracts offered, and the benefits and challenges experienced by farmers under such agreements. Through field-level surveys and interviews with 200 small farmers, the study captures qualitative and quantitative insights into contract farming's role in transforming rural livelihoods. Special attention is given to variations based on age, caste, and education, to understand the inclusivity and equity of such models. The research highlights that while contract farming can provide benefits such as assured pricing, input support, and technical guidance, farmers often face challenges related to delayed payments, lack of written agreements, and limited legal awareness. The findings suggest that although contract farming has the potential to enhance rural development, its success depends on fair contractual practices, effective grievance redressal mechanisms, and policy support to protect smallholders' interests. The study recommends strengthening legal frameworks, promoting written contracts, forming farmer producer organizations (FPOs), and enhancing legal literacy among farmers. By focusing on the case of Baghpat, the research contributes to a deeper understanding of contract farming's viability as a tool for inclusive agricultural growth.

➤ Keywords

Contract farming, small farmers, Baghpat, socio-economic impact, primary data, agriculture.

➤ Introduction

Agriculture in India is characterized by the dominance of small and marginal farmers, who collectively account for over 85% of the total farming population. These farmers often face a range of challenges, including limited access to credit, poor market linkages, volatile price fluctuations, inadequate storage facilities, and insufficient access to modern agricultural technologies. In such a context, **contract farming** has emerged as a potential alternative to traditional open-market systems, offering a model of agricultural production that seeks to integrate smallholders into commercial value chains.

Contract farming can be defined as a system in which **pre-agreed arrangements** are made between farmers and purchasing entities—often companies, processors, exporters, or retail chains. Under these arrangements, the farmer agrees to produce and deliver a specific quantity and quality of agricultural produce, often using inputs and support provided by the buyer. In return, the buyer agrees to purchase the produce at a **predetermined price** or pricing formula. This model is designed to offer **mutual benefits**: farmers gain market assurance and technical support, while buyers secure a consistent and quality supply of raw materials.

In recent years, this system has been actively promoted in India by both the private sector and policymakers as a way to **modernize agriculture**, reduce inefficiencies, and improve rural livelihoods. The government has also recognized the importance of contract farming in policy documents, and various state governments have attempted to create legal frameworks to regulate such contracts.

The district of **Baghpat** in western Uttar Pradesh offers a unique case for studying the impact of contract farming. Known for its fertile land and access to irrigation, Baghpat has traditionally cultivated crops like sugarcane, wheat, and vegetables. With growing interest from agribusinesses in procuring produce directly from farmers, contract farming has begun to take root in this district. A number of companies now engage local farmers in contract production of potatoes, sugarcane, herbs, vegetables, and pulses. As a result, contract farming has started to alter traditional cropping patterns and farmer-market relationships in this region.

The rise of contract farming in Baghpat raises several questions about its **social and economic impact on small and marginal farmers**. On the one hand, proponents argue that it offers stability in income, reduces dependence on middlemen, ensures timely access to quality inputs, and promotes the adoption of scientific farming techniques. On the other hand, critics point to the risks of **unequal bargaining power**, **exploitative contracts**, **payment delays**, and the **erosion of farmers' autonomy**. There are also concerns about the lack of legal literacy among farmers, many of whom sign contracts without fully understanding the terms and conditions involved.

Given the **complex and mixed outcomes** associated with contract farming, it becomes essential to assess its **actual impact at the grassroots level**, especially on small farmers who are economically vulnerable and lack institutional support. This study aims to provide an empirical understanding of the contract farming system as experienced by 200 small farmers in Baghpat district. Through first-hand data collection, it examines the **economic benefits**, **social transformations**, **risks**, and **challenges** faced by the farmers engaged in such arrangements.

In doing so, the study seeks to contribute to the broader debate on whether contract farming can serve as an inclusive and sustainable pathway for rural development, or whether it reproduces existing inequalities under the guise of market efficiency. Ultimately, this research aspires to inform **policy interventions** that can strengthen the position of small farmers in contract arrangements while ensuring transparency, fairness, and long-term sustainability.

➤ Review of Literature

Singh, S. (2002) in his study “Contract Farming for Agricultural Diversification in the Indian Punjab: A Study of Performance and Problems” (Indian Journal of Agricultural Economics) analyzed contract farming models in Punjab and concluded that while farmers gained assured prices and technical support, smallholders remained vulnerable due to weak bargaining power and lack of legal awareness.

Glover, D. (1987) in “Increasing the Benefits to Smallholders from Contract Farming: Problems for Farmers’ Organizations and Policy Makers” (World Development) argued that contract farming can benefit smallholders if supported by strong institutions and transparent legal frameworks.

Deshpande, R.S. (2005) in “Contract Farming: An Overview” (National Bank News Review) emphasized that although contract farming can stabilize farmer incomes, issues such as delayed payments and poor enforcement of contracts limit its effectiveness.

Kumar, P. (2006) in “Contract Farming: Problems, Prospects and Policy Issues” (NCAP Working Paper) observed that while farmers involved in contract farming experienced better market access and reduced marketing risks, small and marginal farmers often faced exploitation due to lack of regulation.

Eaton, C. & Shepherd, A. (2001) in their FAO publication “Contract Farming: Partnerships for Growth” examined global experiences and concluded that successful contract farming depends on mutual trust, fair contracts, and institutional support for smallholders.

Birthal, P.S., Joshi, P.K., & Gulati, A. (2005) in “Vertical Coordination in High-Value Commodities: Implications for Smallholders” (IFPRI) highlighted that contract farming can help integrate small farmers into high-value markets but requires strong policy backing to avoid exploitation.

Roy, D. & Thorat, A. (2008) in “Success in High Value Horticultural Export Markets for the Small Farmers: The Case of Mahagrapes in India” (World Development) demonstrated that collective farmer models improve bargaining power and ensure better terms in contracts.

Barrett, C.B., Bachke, M.E., & Bellemare, M.F. (2012) in “Smallholder Participation in Contract Farming: Comparative Evidence from Five Countries” (World Development) concluded that participation leads to higher incomes but benefits are uneven and depend on crop type, contract terms, and farmer literacy.

➤ Objectives of the Study

1. To assess the extent and nature of contract farming in Baghpat district.
2. To examine the socio-economic changes experienced by small farmers involved in contract farming.
3. To analyze the benefits and challenges faced by the farmers under contract arrangements.
4. To offer policy suggestions based on field-level findings.

➤ Methodology & Research Area

The study employed a descriptive survey method to assess the impact of contract farming on small farmers. Primary data was collected through structured schedules from 200 respondents in Baghpat district, Uttar Pradesh. The area was chosen due to its significant agricultural activity and growing prevalence of contract farming. Stratified sampling was used to ensure representation across age, caste, and education categories, allowing comprehensive analysis of socio-economic and contractual dynamics in the region.

➤ Data collection & Analysis

✓ Q1. What percentage of small farmers in Baghpat are currently engaged in contract farming?

Table-1

Category	Engaged (n=132)	Not Engaged (n=68)	Total
Age < 30	31 (24.24%)	12 (17.64%)	43
Age 30–50	79 (59.85%)	28 (41.18%)	107
Age > 50	22(16.67%)	28 (41.18%)	50

The data shows that most engaged farmers (59.85%) are aged 30–50, followed by those under 30 (24.24%). Only 16.67% of engaged farmers are above 50. In contrast, older farmers (41.18%) form the largest share of non-engaged respondents, suggesting that younger and middle-aged farmers are more likely to adopt contract farming than older ones.

Table-2

Category	Engaged (n=132)	Not Engaged (n=68)	Total
General	42 (31.82%)	25 (36.76%)	67
OBC	76 (57.57%)	35(51.48%)	111
SC/ST	14 (10.6%)	08 (11.76%)	22

The table indicates that OBC farmers have the highest engagement in contract farming (57.57%), followed by General category (31.82%) and SC/ST (10.6%). Among non-engaged farmers, OBCs also lead (51.48%), with General (36.76%) and SC/ST (11.76%) following. This shows that OBC farmers are more actively participating in contract farming compared to other caste groups.

Table-3

Category	Engaged (n=132)	Not Engaged (n=68)	Total
Illiterate	22 (16.67%)	10 (14.70%)	32
Primary	39 (29.54%)	22 (32.35%)	61
Secondary	40 (30.30%)	24 (35.29%)	64
Higher+	31 (23.48%)	12(17.64%)	43

The data shows that farmers with secondary education form the largest group engaged in contract farming (30.30%), followed by those with primary (29.54%) and higher education (23.48%). Illiterate farmers have the lowest engagement (16.67%). This suggests that education level positively influences participation in contract farming, with better-educated farmers more likely to adopt the practice.

✓ Q2. Which crops are most commonly produced under contract farming?

Table-4

Crops	Farmers (n=132)	% of Contract Farmers
Potato	58	43.94%
Sugarcane	35	26.52%
Vegetables	19	14.40%
Medicinal Plants	14	10.61%
Pulses	6	5%

The table highlights the distribution of crops under contract farming among 132 engaged farmers in Baghpat district. Potato emerges as the dominant crop, grown by 43.94% of contract farmers, likely due to its high demand and suitability for processing industries. Sugarcane follows with 26.52%, reflecting its importance in the region's agro-economy, especially with nearby sugar mills. Vegetables account for 14.40%, indicating moderate engagement, possibly due to their perishability and market risks. Medicinal plants, though less common (10.61%), suggest growing diversification in crop choices under contracts, influenced by rising demand in pharmaceutical and wellness sectors. Pulses form the smallest share (5%), showing limited contract opportunities in this category. Overall, the crop pattern reveals a preference for high-value or contract-friendly crops.

✓ Q3. Types of buyers and contract terms

Table-5

Company/Buyer	Associated Farmers	Contract Type	Payment Cycle
PepsiCo (Potato)	47	Mostly oral (79.5%)	Monthly/seasonal
DCM Shriram (Sugarcane)	38	Formal written (60.5%)	Seasonal
Patanjali (Herbs)	14	Mostly informal (70.0%)	Delayed or post-harvest
Local vendors	33	Oral	Immediate/same day

The table presents the major buyers involved in contract farming in Baghpat district and the nature of their agreements. PepsiCo, dealing mainly in potatoes, works with 47 farmers, mostly through oral agreements (79.5%), with payments made monthly or seasonally. DCM Shriram contracts with 38 sugarcane farmers using formal written contracts (60.5%) and follows a seasonal payment cycle. Patanjali, sourcing medicinal herbs, has 14 associated farmers, with 70% under informal agreements and delayed or post-harvest payments. Local vendors work with 33 farmers, relying entirely on oral agreements, offering immediate or same-day payments. This data indicates a lack of formalization in many contracts, with larger companies using a mix of oral and written formats and varying payment cycles, affecting farmer security and planning.

✓ Q4. Effect of contract farming on income

Table-6

Income Category	Before (Avg. ₹/month)	After (Avg. ₹/month)	Change %
Illiterate	₹7,000	₹9,000	+38%
Primary	₹8,000	₹12,000	+50%
Secondary	₹9,000	₹15,000	+47%
Higher+	₹10,000	₹18,000	+56%

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✓ Q5. Change in standard of living, education, and health

Table-7

Parameter	Improved (%)
School attendance	73.0% of families
Access to healthcare	63.0%
Household assets	58.5%
Nutritional intake	60.5%

The data highlights the socio-economic improvements observed among contract farming households in Baghpat district. A significant 73% of families reported improved school attendance, indicating enhanced educational access and affordability due to better incomes. Access to healthcare improved for 63% of families, suggesting increased ability to afford medical services. About 58.5% of households acquired new assets, such as motorbikes, tools, or household appliances, reflecting rising living standards. Additionally, 60.5% reported improved nutritional intake, pointing to better food quality and diet diversity. These indicators collectively suggest that contract farming has had a positive impact on the quality of life of small farmers, contributing to socio-economic development through enhanced income, access to basic services, and improved well-being of agricultural families.

✓ Q6. Changes in landholding, debt, and employment-

Table-8

Indicator	% of Contract Farmers (n=132)
Increased landholding	17.0%
Reduced agricultural debt	34.5%
Employed outside labor	48.5%

The data reflects structural changes in farming households due to contract farming in Baghpat. Around 17% of contract farmers reported an increase in landholding, suggesting reinvestment of income into land acquisition or lease. A significant 34.5% experienced a reduction in agricultural debt, indicating improved financial stability and reduced dependency on informal credit. Notably, 48.5% of farmers employed outside labor, pointing to increased workload, expanded operations, or higher productivity. This shift also suggests a potential rise in rural employment and wage opportunities. Overall, contract farming appears to contribute to gradual improvements in economic resilience, asset base, and employment generation among small farmers, although the benefits are not uniformly distributed across all participants, indicating room for broader inclusion and policy support.

✓ Q7. Perceived benefits of contract farming-

Table-9

Benefit	% of Contract Farmers
Assured price	69.5%
Input supply (seeds, fertilizers)	62.0%
Market access	50.5%
Technical guidance	28.0%

The perceived benefits of contract farming among farmers in Baghpat district reveal multiple advantages. A majority, 69.5%, cited assured pricing as the most valuable benefit, helping reduce market-related risks and price fluctuations. About 62% reported receiving input support, such as seeds and fertilizers, reducing upfront investment costs. Improved market access was noted by 50.5% of farmers, indicating ease in selling produce without relying on middlemen. However, only 28% acknowledged receiving technical guidance, suggesting a gap in knowledge transfer and training. These findings indicate that while contract farming offers significant financial and logistical benefits, there is a need for better extension services and farmer education to ensure holistic development and sustained productivity in the farming community.

✓ Q8. Disputes or challenges faced

Table-10

Challenge	% Reporting
Delayed payment	43.0%
Rejection of produce	27.0%
Low or manipulated price	19.5%
Contract breach	10.5%

The data highlights key challenges faced by contract farmers in Baghpat district. Delayed payments emerged as the most common issue, reported by 43% of farmers, indicating cash flow problems and financial stress. About 27% experienced rejection of produce, often due to quality standards not being clearly defined or communicated. Low or manipulated prices were reported by 19.5%, reflecting concerns over transparency and fairness in pricing mechanisms. Additionally, 10.5% faced outright breaches of contract, such as buyers not honoring agreements. These challenges reveal significant trust and implementation gaps in the contract farming system. Addressing these issues through stricter enforcement of contracts, farmer awareness programs, and dispute resolution mechanisms is essential to protect smallholders and enhance the credibility of contract farming.

✓ Q9. Protection through contracts and legal awareness

Table-11

Aspect	% of Contract Farmers
Had written contracts	20.0%
Aware of legal rights	35.5%
Ever filed a complaint/legal case	5.5%

Only 20% of contract farmers in Baghpat have written contracts, indicating that most agreements are informal or verbal. Awareness of legal rights is limited, with just 35.5% of farmers knowledgeable about their protections under contract farming laws. Despite facing challenges, only 5.5% have ever filed a complaint or legal case, reflecting possible barriers such as lack of resources, fear of retaliation, or limited access to legal support. This low level of formal protection and legal action highlights the need for better education and support systems to empower farmers and safeguard their interests in contract farming agreements.

✓ Q10. Suggested improvements

Table-12

Policy Suggestion	% of Farmers Supporting
Make written contracts mandatory	87.5%
Set up grievance redressal cells	55.5%
Form farmer collectives or FPOs	66.0%
Government monitoring of companies	72.5%
Legal literacy & training for smallholders	62.0%

A significant majority of farmers (87.5%) support making written contracts mandatory to ensure transparency and reduce exploitation. Over half (55.5%) favor establishing grievance redressal cells to address disputes promptly and fairly. Forming farmer collectives or Farmer Producer Organizations (FPOs) is backed by 66%, as collective bargaining can strengthen their position. Additionally, 72.5% advocate for government monitoring of contracting companies to ensure compliance with fair practices. Legal literacy and training programs are supported by 62% of farmers, highlighting the need to empower smallholders with knowledge about their rights. These policy measures collectively aim to improve the fairness, transparency, and effectiveness of contract farming, promoting equitable benefits for small farmers in Baghpat.

➤ Conclusion and Suggestions

The study of contract farming in Baghpat district reveals a mixed impact on small farmers. While contract farming has provided certain socio-economic advantages, such as assured pricing, input support, and improved market access, its effectiveness remains limited by weak institutional support and a lack of legal awareness among farmers. The data shows that a significant number of farmers have experienced positive changes in income, education, and healthcare access, with a notable percentage reporting improved nutritional intake and asset ownership. Furthermore, employment opportunities have increased through the hiring of outside labor, and some farmers have been able to reduce their agricultural debt. However, the benefits are not universal, and many challenges persist.

A major concern is the informality of contracts. Most agreements are verbal or informal, leaving farmers vulnerable to disputes, such as delayed payments, price manipulation, and rejection of produce. The limited percentage of farmers with written contracts and knowledge of legal rights shows a pressing need for structural improvements in the contract farming framework. Moreover, very few farmers have taken legal action, indicating barriers in access to justice and grievance redress mechanisms. Based on the findings, several policy suggestions can be made. First, making written contracts mandatory would help create legal clarity and protect farmers' rights. These contracts should clearly define responsibilities, quality standards, payment schedules, and conflict resolution procedures. Second, establishing district-level grievance redressal cells would offer farmers a platform to voice concerns and resolve disputes in a timely and transparent manner.

the formation of farmer collectives or Farmer Producer Organizations (FPOs) should be actively encouraged and supported. These organizations can enhance bargaining power, reduce dependence on middlemen, and facilitate better negotiation of contract terms. Fourth, stronger government monitoring of private companies involved in contract farming is essential to ensure compliance with fair trade practices and safeguard smallholders from exploitation.

Finally, awareness and capacity-building initiatives should be launched to educate farmers about their legal rights, contract terms, and methods of dispute resolution. Training sessions, legal aid camps, and informational campaigns can significantly improve farmers' ability to protect themselves in contractual engagements. In conclusion, contract farming holds promise for improving the livelihoods of small farmers, but its full potential can only be realized through regulatory reforms, institutional support, and farmer empowerment. A balanced and inclusive approach will ensure that contract farming becomes a tool for sustainable rural development.

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